United Nations DP/FPA/2011/5

Executive Board of the United Nations Development Programme, of the United Nations Population Fund and of the United Nations Office for Project Services

Distr.: General
11 April 2011

Original: English

Annual session 2011
6 to 17 June 2011, New York
Item 10 of the provisional agenda
UNFPA – Internal audit and oversight

UNITED NATIONS POPULATION FUND

REPORT OF THE DIRECTOR OF THE DIVISION FOR OVERSIGHT SERVICES ON UNFPA INTERNAL AUDIT AND OVERSIGHT ACTIVITIES IN 2010

Summary

The present report on UNFPA internal audit and oversight activities in 2010 responds to decision 2010/22 and earlier decisions of the Executive Board. In accordance with decision 2010/22, paragraph 20, the report is entitled Report of the Director of the Division for Oversight Services on UNFPA internal audit and oversight activities in 2010. The report seeks to inform the Board of the key risks that could impact the work of the Fund in a development environment marked by change and challenges. Compared to past reports, the present report focuses on recommendations to be considered by the Executive Board.

As requested by the Executive Board in decision 2008/37, the annual report of the UNFPA Audit Advisory Committee and the management response thereto are provided as annexes to the present report on internal audit and oversight. In addition, a separate comprehensive management response is made available on the UNFPA website.

Elements of a decision

The Executive Board may wish to adopt a decision taking into account the recommendations contained in the present report.

11-29664 (E) 180511

Contents

Page

I. Introduction 5

II. Evidence: source, reliability, methodology 5
- A. Oversight activities in 2010 5
- B. Resources 5
- C. Compliance with the oversight policy – Disclosure of internal audit reports 6
- D. Reliability of the Division for Oversight Services 6
- E. Methodology 7

III. UNFPA risk exposure and trends 7
- A. Key global risks 7
- B. Country offices risk assessment 8
- C. Significant oversight issues 10

IV. Follow-up of 2007-2010 internal audit recommendations 12

V. The way forward 13
- A. Governance 14
- B. Human resources: People 15
- C. Programme 16
- D. Linking governance and people: Structure 19
- E. Linking programme and people: Performance 20
- F. Linking programme and governance: Operations management 22

ANNEX 1: ACTIVITIES OF THE DIVISION FOR OVERSIGHT SERVICES 28
- Audits 28
- Investigations 28
- Evaluations 30
- Other activities 30

ANNEX 2: REPORTS ISSUED IN 2010 31
ANNEX 3: RECURRENT ISSUES 32
ANNEX 4: ANNUAL REPORT OF THE AUDIT ADVISORY COMMITTEE 38
ANNEX 5: MANAGEMENT RESPONSE TO THE ANNUAL REPORT OF THE AUDIT ADVISORY COMMITTEE 46

List of figures

Figure 1: Country offices risk profiles 8
Figure 2: Consolidated risk profile of country offices 9
Figure 3: Trend in risk categories (2007 index at 100 per cent) 10
Figure 4: Country offices audit recommendations by area 11
Figure 5: Unresolved recommendations as at 22 February 2011 for 18 months and over 13
Figure 6: The three management fundamentals 14

Figure 7: Correlation between adult lifetime risk of maternal death and country programme document reproductive health proposed assistance 17
Figure 8: Number of indicators 20
Figure 9: Evolution of operating fund account/national execution balance January 2010 and 2011 (in millions of $) 26

List of tables

Table 1: 2010 Human resources in the Division for Oversight Services 6
Table 2: Implementation status by year of audit/oversight recommendations as at 22 February 2011 12
Table 3: Issues in appointment (sample size 90) 15
Table 4: Comparison of 2008 and 2009 national execution audit performance 25

List of Acronyms

AAC	Audit Advisory Committee
Atlas	PeopleSoft™ software
AWP	Annual workplan
BOA	United Nations Board of Auditors
BSB	Biennial support budget
CARDS	Comprehensive audit and recommendation database system
COE	Certificate of expenditure
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DOCO	United Nations Development Operations Coordination Office
DOS	Division for Oversight Services (UNFPA)
ERM	Enterprise risk management
ERP	Enterprise resource planning
FACE	Funding Authorization and Certificate of Expenditures form
HACT	Harmonized approach to cash transfers to implementing partners
HLCM	United Nations High-level Committee on Management
ICF	Internal control framework
ICT	Information and communications technology
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
IPSASs	International Public Sector Accounting Standards
IT	Information technology
M&E	Monitoring and evaluation
MIS	Management Information Services
NEX	National execution
OFA	Operating fund account
OSCE	Organization for Security and Cooperation in Europe
PAD	Performance appraisal and development
RBM	Results-based management
RIAS	Representatives of the Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions
UNEG	United Nations Evaluation Group
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSAS	United Nations System Accounting Standards
UNDAF	United Nations Development Assistance Framework
UNCT	United Nations country team

I. Introduction

1. This report is presented at a time when UNFPA has new leadership and is addressing as a top organizational priority the issues raised by the United Nations Board of Auditors (BOA) in their report (A/65/5/Add.7) which was issued with a qualification on the financial statements for the biennium 2008-2009 and an emphasis of matter. As noted in the Report of the Board of Auditors (A/65/5 Add.7), both the qualification and the emphasis of matter relate to issues that had been reported in previous years to the Executive Board by the Division for Oversight Services (DOS). In 2010, the management of UNFPA mobilized all levels of the organization to address the deficiencies identified by the auditors. These efforts will require time before showing results as can be expected in a complex organization such as UNFPA. It is not surprising that there is not much change between 2009 and 2010 in risk exposure and recurrence of audit issues. The root causes of these issues are structural and systemic, and thus unlikely to be corrected by ad hoc and contingent measures. The management transition provides an excellent opportunity to integrate the existing initiatives into other strategic efforts that would help UNFPA to consolidate its reputation.

2. The Division for Oversight Services supports management in taking advantage of this unique opportunity and contributes actively in the improvement of the operations of UNFPA. Compared to past reports the present report is unusual as it focuses on recommendations to be considered by the Executive Board. Following the introduction, the report describes in section II the systematic and objective approach used by DOS to evaluate and improve the effectiveness of management processes; in section III, the report provides an overall assessment of the risk exposure of UNFPA. In section IV, the report provides a detailed review of recommendations and their status. Section V discusses the way forward and focuses on evidence-informed recommendations to support the Executive Board in providing guidance to the Executive Director in accordance with General Assembly resolution 48/162.

II. Evidence: source, reliability, methodology

A. Oversight activities in 2010

3. The Division for Oversight Services completed 16 oversight engagements in 2010. The details of the engagements and the activities of the three branches of the Division (Internal Audit, Evaluation and Investigation) are provided in annex 1.

B. Resources

Human resources

4. An analysis of the 2010 staffing situation in DOS shows significant improvement in filling the vacancies in the management positions, as well as in the professional staff positions in the Internal Audit Branch and the Investigation Branch. The recruitment process for the posts of the Chief of the Internal Audit Branch and the Information Technology Audit Specialist was completed in 2010.

5. For the Evaluation Branch, 2010 has been marked by an important staff turnover with the departure of three staff members, including the Chief of the Branch. The new Chief assumed his responsibilities in September 2010, followed by the Evaluation Analyst (P2) in December 2010 and the Evaluation Adviser (P5) in mid-January 2011. Two new staff members, an Evaluation Adviser (P5) and an Evaluation Specialist (P4) are scheduled to join the Branch in mid-2011. Table 1 below summarizes the authorized DOS professional vacancies and the vacancy time as of January 2011.

Table 1
2010 Human resources in the Division for Oversight Services

	Number of professional posts	Person-months	Person-months vacant	Percentage vacant
Director	1	12	0	0
Deputy Director	1	12	0	0
Internal Audit Branch	8	96	6	6
Evaluation Branch	4	48	40	83
Investigation Branch	3	24	0	0
Total for DOS	17	192	46	24

Financial resources

6. The Division for Oversight Services receives funding from two sources: (a) the UNFPA biennial support budget (BSB); and (b) UNFPA programme resources (global and regional programme). In 2010, the DOS budget amounted to $5,152,884 of which $3,952,884 (77 per cent) was from BSB funds and $1,200,000 (23 per cent) from the UNFPA global and regional programme resources. There was a 13 per cent increase in overall budget funding for the oversight function compared to 2009 ($4,541,317).

7. Resource constraints and a heavy case load have meant that there has been negligible investment in the promotion of fraud prevention and detection activities. The continuous increase in case load calls for an additional staff position in the Investigation Branch.

C. Compliance with the oversight policy – Disclosure of internal audit reports

8. As of 31 December 2010, no request for disclosure of internal audit reports had been received and, thus, no internal audit report had been disclosed.

D. Reliability of the Division for Oversight Services

9. The reliability of the Division for Oversight Services is the result of measures taken to guarantee its objectivity and independence. It is mandatory for all staff to declare any conflict of interest and to file a financial disclosure annually. The quality of the work of

the Division is regularly monitored by the United Nations Board of Auditors, the UNFPA Audit Advisory Committee (AAC), and all auditors are invited to pass the certification by the Institute of Internal Auditors (IIA). In addition to this systematic approach, the Division for Oversight Services commissioned a full external review by the IIA in accordance with the International Standards for the Professional Practice of Internal Auditing. The IIA team's overall opinion was that the internal audit activity is in conformity with the standards and definition of internal auditing. DOS is one of the very few internal audit units in the United Nations system to have successfully completed an external quality assessment by the IIA.

10. The IIA report included three recommendations for improvements in DOS, which are as follows:

- Expand the quality assessment improvement programme.
- Improve the corporate and information technology audit universes for risk assessment purposes.
- Improve relations with senior executives and managers.

DOS is taking action to implement all these recommendations in 2011.

E. Methodology

11. In accordance with the International Standards for the Professional Practice of Internal Auditing, the assurance process performed by the Division for Oversight Services is risk-based. Two factors determine the audit plan that is approved by the Executive Director after review by the Audit Advisory Committee: the risk exposure of business units and the time elapsed since the last audit. The risk assessment is conducted at all levels of operations in UNFPA. The risk classification adopted by UNFPA has been extensively described in earlier reports to the Executive Board (DP/FPA/2006/4, DP/FPA/2007/14 and DP/FPA/2010/20). In accordance with Executive Board decision 2010/22, paragraph 15, the risk model that generates the analysis provided in the following section was revised to provide trends from a 2007 benchmark and was extended for providing a risk assessment of headquarters and cross-cutting functions. The availability of data for the period 2007-2010 has enabled the Division for Oversight Services to validate the country office risk model. In 60 per cent of the cases, the risk model results coincide with the country office audit ratings.

III. UNFPA risk exposure and trends

A. Key global risks

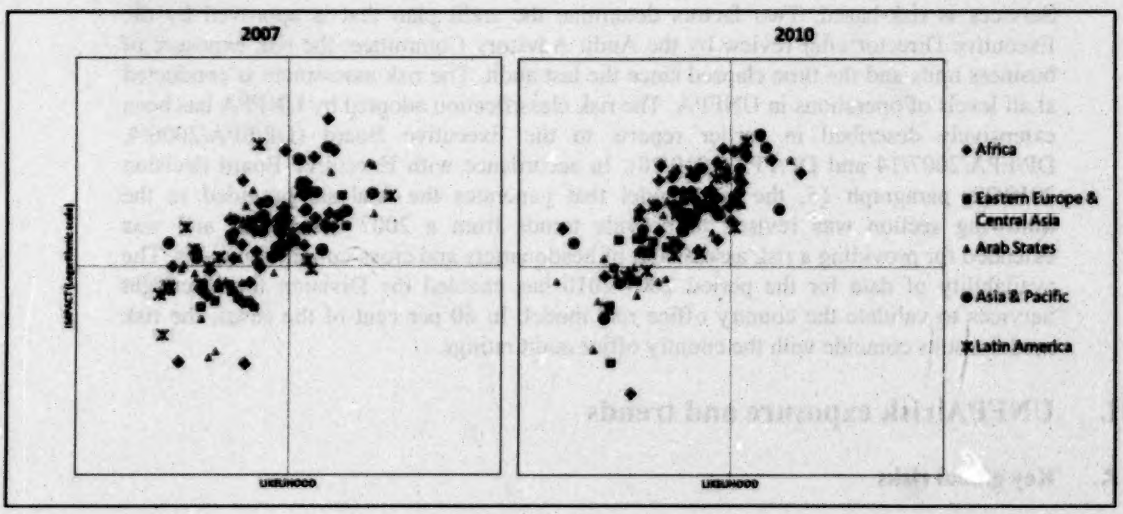
12. There are significant global risks. These include managing, inter alia: (a) a highly decentralized operation with over 130 country, subregional and regional offices; (b) a high vacancy rate for key management and operational positions in country offices and a high staff rotation and reassignment rate; (c) multiple financing mechanisms (global and regional programme; thematic and other trust funds; and different co-financing modalities); (d) a high volume (over 1,435 at the end of 2010) of implementing partners

with varying degrees of capabilities; (e) a high volume of annual workplans (2,310 in 2010) developed and managed without the support of integrated systems and tools; (f) a results framework with multiple planning and reporting tools; (g) a high volume of indicators; and (h) a high number of significant ongoing initiatives, such as regionalization, International Public Sector Accounting Standards (IPSASs) implementation, the development of the enterprise risk management (ERM) and internal control frameworks (ICF), and the implementation and/or upgrade of several systems. The 11 significant oversight issues identified in DP/FPA/2009/5 and DP/FPA/2010/20 remain relevant.

B. Country offices risk assessment

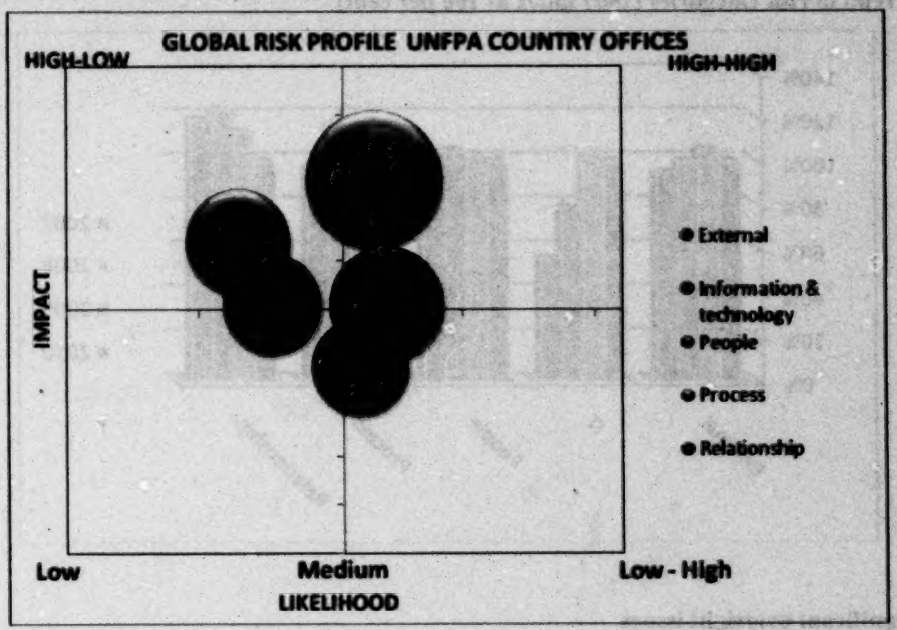
13. This risk universe encompasses all country offices, with the expenditure amounting to $545 million as of 10 January 2010, or 69 per cent of the UNFPA total annual expenditure. As indicated in figure 1 below, the country offices risk mapping is showing an improvement characterized by a migration of the points to the left side of the risk matrix. This positive finding shows that the actions initiated by UNFPA to correct some deficiencies have started showing results. The reductions in operating fund account (OFA) balances and in vacancies are amongst the most significant factors influencing this positive pattern.

Figure 1
Country offices risk profiles



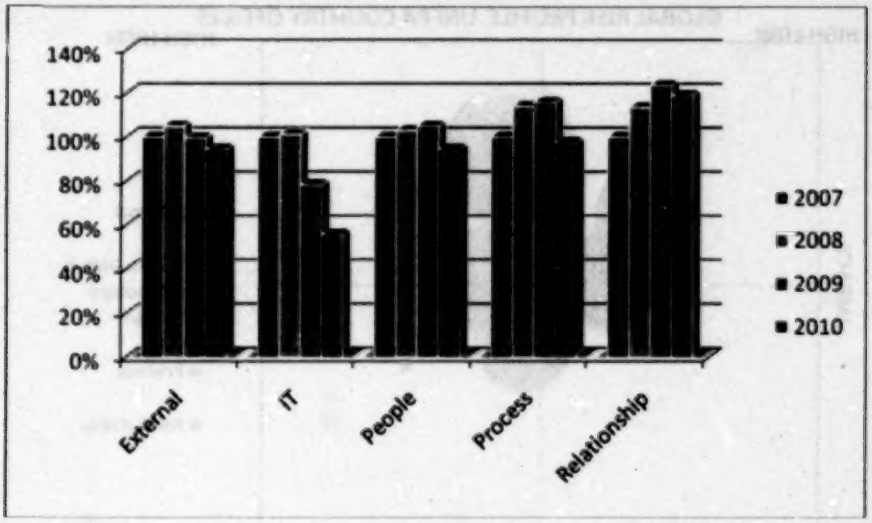
14. With the availability of comparable data, the model also provides some indication of trends by risk categories (external, information technology, people, process and relationship -- for definitions see DP/FPA/2006/4 and DP/FPA/2007/14). The results of the analysis carried out in January 2011 do not differ from previous reports, and relationship and process risks remain too high (see figure 2 below).

Figure 2
Consolidated risk profile of country offices



15. Compared over time, the levels of risks in country offices in the categories of information and technology are lower than in 2007; and relationship and process risks have not improved or worsened (see figure 3 below comparing values over 2007 index). The trend in these risks can be respectively associated with weaknesses in internal controls, programme management and monitoring, and with programme execution modalities. These issues, already mentioned in DP/FPA/2007/14, DP/FPA/2008/11, DP/FPA/2009/5 and DP/FPA/2010/20 should continue to receive greater attention by management. These findings are congruent with those identified by the external auditors and those detailed in earlier oversight reports of DOS as delineated in the following section.

Figure 3
Trend in risk categories (2007 index at 100 per cent)

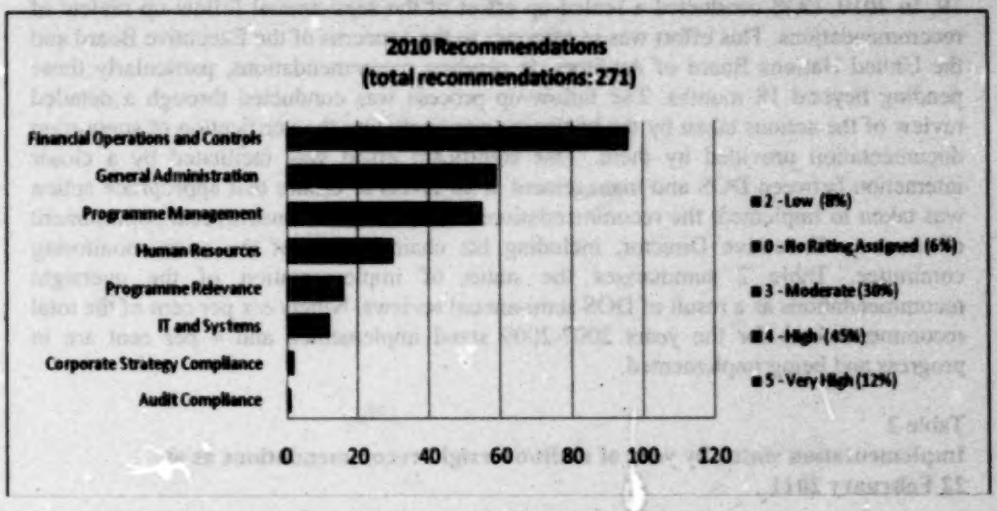


C. Significant oversight issues

Country offices

16. Nine of the oversight engagements completed in 2010 assessed controls and operations at UNFPA country offices with expenditures amounting to $82.3 million in 2009 (11 per cent of total expenditures). The risk management performance of eight of the nine country offices assessed was rated as "unsatisfactory" due to internal control, compliance and operational issues that could prevent the achievement of the objectives of the entities. The country office oversight assessment reports issued in 2010 contained 271 recommendations, of which 153 (57 per cent) were rated as high or very high impact. These compare to 580 recommendations issued in 2009, 36 per cent of which were considered to be of high or very high impact. The number of recommendations declined significantly in 2010 due to a concerted effort to focus on critical and systemic recommendations. As shown in figure 4 below, the majority of the country office issues were identified in the following areas: (a) financial operations and controls (national execution, harmonized approach to cash transfers to implementing partners (HACT) and processing, recording and reporting of financial transactions); (b) general administration (procurement and asset management); (c) programme management (programme planning, implementation and monitoring); (d) human resources; and (e) programme relevance. The matrices in annex 3 provide details on the most common oversight issues identified within those categories. It is important to note that the engagements completed in 2010 covered operations and activities of UNFPA country offices during 2008 and 2009, the assessment outcomes generally reflect the status of operations and controls in those years.

Figure 4
Country offices audit recommendations by area



Headquarters units

17. DOS performed six audit assignments at UNFPA headquarters in 2010. Two of these audits (IPSASs implementation and 2009 national execution (NEX) audit process) were rated as "unsatisfactory". No rating was assigned as a result of the assessment performed on information and communications technology (ICT) controls, but significant control design gaps were identified requiring immediate management attention. The remaining three engagements were rated as "partially satisfactory". In total, DOS issued 192 recommendations as a result of its oversight assessments of headquarters functions, 61 per cent of which were rated as high or very high risk.

18. Issues identified as a result of the assessments of the 2009 NEX audit and the IPSASs implementation processes are discussed in detail in section IV of this report. The results of the ICT control risk assessment performed indicate that key controls in most of the processes assessed within this area were not in place or are of an ad hoc and/or informal nature, increasing the risk of service delivery problems, unauthorized access to information resources and ineffective use of ICT assets. It has been recommended that management: (a) assign high priority to the development of an ICT internal control and governance framework as a foundation for developing and/or enhancing policies, procedures, processes and controls; (b) ensure that resources assigned to the Management Information Services (MIS) Branch are used efficiently; and (c) carefully and diligently prioritize and plan remediation activities to ensure that the key risks identified are addressed in a timely manner through practical and sustainable internal controls.

IV. Follow-up of 2007-2010 internal audit recommendations

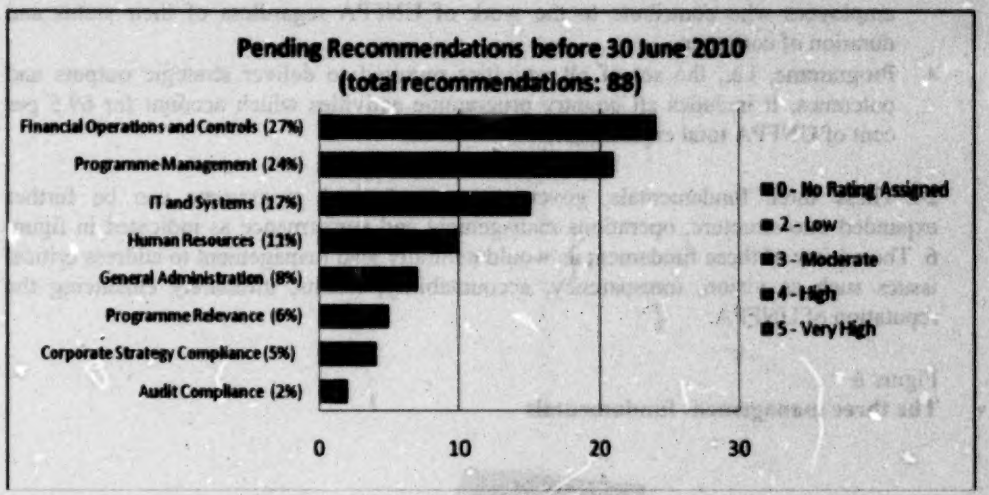
19. In 2010, DOS conducted a scaled-up effort of the semi-annual follow-up review of recommendations. This effort was in response to the concerns of the Executive Board and the United Nations Board of Auditors on pending recommendations, particularly those pending beyond 18 months. The follow-up process was conducted through a detailed review of the actions taken by the business units, including the verification of supporting documentation provided by them. This significant effort was facilitated by a closer interaction between DOS and management at all levels to ensure that appropriate action was taken to implement the recommendations and also by the unequivocal commitment of the new Executive Director, including his chairmanship of the audit monitoring committee. Table 2 summarizes the status of implementation of the oversight recommendations as a result of DOS semi-annual reviews. Ninety-six per cent of the total recommendations for the years 2007-2009 stand implemented and 4 per cent are in progress and being implemented.

Table 2
Implementation status by year of audit/oversight recommendations as at 22 February 2011

Year	Number of reports issued	Total number of recommendations	Closed	In progress
2007	18	1,052	1,040 (99%)	12 (1%)
2008	20	882	840 (95%)	42 (5%)
2009	19	631	581 (92%)	50 (8%)
Subtotal 3 years (2007-2009)	57	2,565	2,461 (96%)	104 (4%)
2010	18	463	62 (13%)	401 (87%)
Grand total	75	3,028	2,523 (83%)	505 (17%)

20. As of 22 February 2011, a total of 505 recommendations (304 pertaining to country offices and 201 to headquarters) are pending, of which 104 recommendations pertain to the period 2007-2009. Of the 104 recommendations, 88 are unresolved recommendations issued before 30 June 2009 and are pending for over 18 months. As shown in figure 5, three areas require more attention from management in order for further progress on closing recommendations by DOS: (a) information and communications technology; (b) project/programme management; and (c) financial and operations management controls. Examples include, but are not limited to, Atlas security and controls, Funding Authorization and Certificate of Expenditures form (FACE form) and operating fund account management, NEX, and the monitoring and evaluation (M&E) capacity and follow-up.

Figure 5
Unresolved recommendations as at 22 February 2011 for 18 months and over



21. Unresolved recommendations with high impact relate to enterprise resource planning (ERP) access controls, incomplete documentation on disbursements, reconciliation of end-of-year country programmes and OFA balances, and unauthorized write-offs on OFA balances.

V. The way forward

22. The audit evidence accumulated for the past four years and the findings described in the previous section of the present report demonstrate that management should continue efforts to mitigate the risk exposure and improve the overall performance of UNFPA. However, the difficulty of such an undertaking should not be underestimated and the efforts and commitment of the management of UNFPA should be acknowledged and underscored. Many of the risk mitigation activities that are required are interrelated and are of equal priority and importance, thus creating a challenging situation wherein systemic and structural issues need to be addressed simultaneously. It is possible, however, to organize such an endeavour by following a path delineated by the three basic fundamentals that make an organization: its values and the way they are communicated, its workforce and what it is expected to deliver.

23. The audit findings documented for the past four years and the trends in risk profiles indicate that UNFPA should pay attention to three essential areas: governance, human resources and programme. For the purpose of this report, the three areas are defined as follows:

- Governance is the set of cultural norms, policies, rules and regulations, and institutions affecting the way UNFPA is directed. It includes, inter alia, the

relationships among the many stakeholders involved and the goals of UNFPA, transparency, "tone at the top", and ethics.

- Human resources (hereinafter referred to as "people") are understood as all employees who contribute to the work of UNFPA regardless of their status and duration of contracts.
- Programme, i.e., the set of all activities required to deliver strategic outputs and outcomes. It includes all country programme activities which account for 69.5 per cent of UNFPA total expenditure.

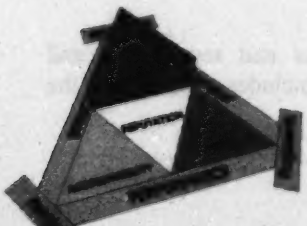
24. These three fundamentals, governance, people and programme can be further expanded into structure, operations management and performance as indicated in figure 6. The review of these fundamentals would naturally lead management to address critical issues such as vision, transparency, accountability, results, ultimately enhancing the reputation of UNFPA.

Figure 6
The three management fundamentals

25. Accordingly, the following section of this report offers the Executive Board a practical approach, which, informed by audit findings and their characteristics, helps formulate strategic recommendations and guide UNFPA in meeting its management challenges.

A. Governance

Vision



26. Although assessing the extent of progress towards the Millennium Development Goal 5 target of reducing by three quarters the maternal mortality ratio between 1990 and 2015 is a challenge. The results

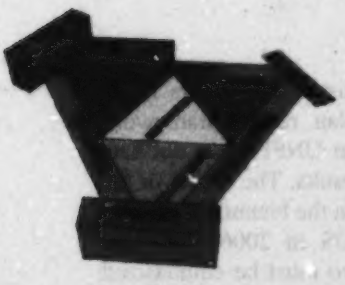
published by the Maternal Mortality Estimation Inter-agency Group composed of WHO, UNICEF, UNFPA and the World Bank indicate that this goal is lagging behind and that substantial country and regional disparities persist. At the time when the world population will reach 7 billion with an unprecedented proportion of people below the age of 18 and a persisting and worrying prevalence of HIV/AIDS in young women, UNFPA needs to reassess its role, strategic priorities and interactions with all stakeholders. This strategic assessment should be embedded in a vision for the forthcoming years. If well communicated outside and inside, this vision, based on the Programme of Action of the International Conference on Population and Development, will inspire UNFPA employees and help focus UNFPA strategic direction and advocacy.

Recommendation 1

27. Building on the midterm review of the UNFPA strategic plan, 2008-2013, the Executive Director should elaborate a vision statement that would reorder the priorities and guide UNFPA for the subsequent strategic plan and results framework. This vision statement should be supported by a strategic communication approach targeted at the public and UNFPA employees.

B. Human resources: People

Adequacy



28. Based on 2010 expenditure figures, approximately 31 per cent ($225 million) of total UNFPA expenditures are on personnel salary costs. Furthermore, consultants and contractors such as special service agreement/service contracts constitute 50 per cent and 80 per cent of total salary costs in programme and trust funds expenditures, respectively. This evidences a large dependency on contracts and consultancies for the delivery of the programme and constitutes a risk to the stability of programme delivery.

29. Of the total staff of UNFPA, 17 per cent are at headquarters, 10 per cent are in regional offices and 73 per cent are in country offices. Twenty-three per cent of international staff members are new or reassigned to their functions. A survey conducted by DOS in December 2010 shows the following:

Table 3: Issues in appointment (sample size 90)

	Representative	Deputy Representative	Assistant Representative
Post vacant before appointment	23%	13%	15%
Average vacancy (months)	5.5	8.6	9.7
Maximum vacancy (months)	30	24	36
Received induction training	32%	0%	10%

30. The issues of staff vacancies and inadequate expertise are further compounded by the dynamics of the population of staff members in UNFPA:

- A total of 103 international professionals (21 per cent of total international professionals) are projected to retire between 2011 and 2015. Of those at the senior management level (P5 and above), 31 per cent will be retiring, including eight of the 13 staff at D2/P7 level[1].
- The proportions of international professional staff aged 20-30 and 30-35 years are 1 per cent and 7 per cent, respectively.

UNFPA faces a risk of managing a large volume of remote entities, with a large percentage of staff in new or reassigned functions without proper skills and expertise.

Recommendation 2

31. UNFPA should ensure that:

- Vacant positions are filled without delays by competent staff.
- Staff have the necessary UNFPA-related competencies and skills in management, programming, monitoring and evaluation and operations as required.
- A programme is launched to ensure succession planning, develop young talent within the organization, and develop and provide career paths and training. The recourse to temporary personnel (retirees, officers-in-charge) should be discouraged.

C. Programme

Relevance

32. Despite an impressive list of indicators (more than 50) in its strategic plan results framework, available evidence shows that UNFPA has not been successful in measuring its results. The causes of this situation have been detailed in the biennial reports on evaluation presented by DOS in 2006, 2008 and 2010. Among the causes, two must be emphasized: (a) inadequate use of evidence-based programming; and (b) lack of strategic focus. Although the use of quantitative and qualitative analytics improves performance[2], evidence-based programming has not received the much-deserved attention it merits. The guidance note on evidence-based programming developed by the Programme Division is a preliminary step of a process that should eventually result in a comprehensive methodology explained in practical guidelines. Inappropriate programme focus is one of the consequences of this lack of culture of analytics and is one of the recurrent findings in DOS field engagements. Eighty-eight per cent of programme countries have activities in all three of the Fund's strategic areas (population and development; reproductive health; and gender equality and women's empowerment), thus spreading limited resources too thinly, when

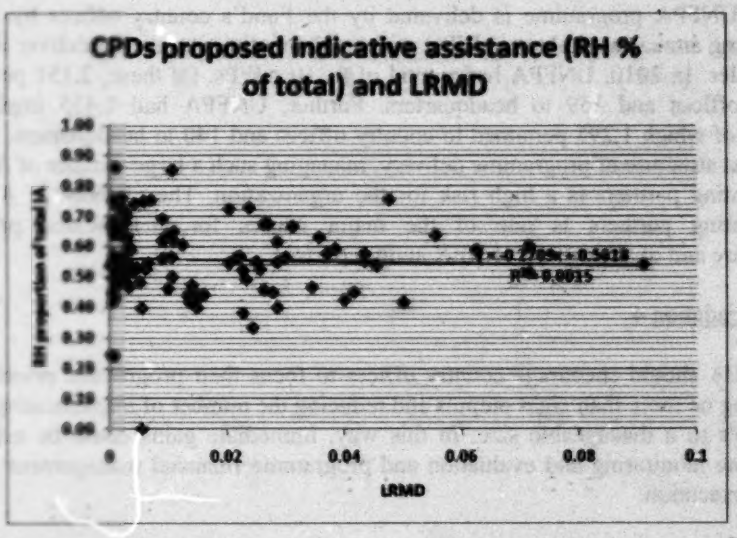
[1] UNFPA, Report on human resources management in UNFPA, DP/FPA/2011/2.

[2] Steve LaValle and others, "Big Data, Analytics and the Path From Insights to Value", *MIT Sloan Management Review*, vol. 52, No. 2, pp. 21-33 (December 21, 2010).

compared to other funds or programmes or international institutions. There is no correlation between the reproductive health status of the countries and the levels of UNFPA investments in reproductive health as illustrated in figure 7 below where lifetime risk of maternal death[3] (LRMD) is correlated with the proportion of indicative assistance in reproductive health. The same absence of correlation exists when using other reproductive health indicators such as contraceptive prevalence, unmet needs or teenage pregnancy rates and budgets or expenditures.

Figure 7

Correlation between adult lifetime risk of maternal death and country programme document reproductive health proposed assistance



33. The Division for Oversight Services conducted an analysis of the proportions of proposed indicative assistance in reproductive health, population and development, and gender to the total approved assistance of 109 country programme documents approved by the Executive Board for the past six years. This analysis shows with a 95 per cent degree of confidence that these values range between 53 and 58 per cent for the reproductive health component; 22 and 26 per cent for the population and development component; and 13 and 17 per cent for the gender component. This distribution of resource allocation demonstrates that in too many cases country programme indicative assistance is indiscriminate and not based on the needs of the beneficiaries. This finding calls for more flexibility to better respond to the specific needs of programme countries.

[3] "The adult lifetime risk of maternal death (LRMD) is the probability that a 15-year-old female will die eventually from a maternal cause. As measured in 2008, it is highest in sub-Saharan Africa (at 1 in 31), followed by Oceania (1 in 110), and South Asia (1 in 120), while developed regions had the smallest lifetime risk (1 in 4,300). Of the 172 countries and territories, Afghanistan had the highest estimated lifetime risk of 1 in 11. (*Trends in Maternal Mortality: 1990 to 2008 Estimates developed by WHO, UNICEF, UNFPA and The World Bank* (World Health Organization, Geneva, 2010).

Recommendation 3

34. UNFPA should comply with Executive Board decisions 2008/12, paragraph 2; 2009/18, paragraph 4; and 2010/26, paragraph 11. UNFPA should further elaborate an evidence-based methodology to be applied at corporate level for making investment decisions and at country level for designing the programme in 2011. UNFPA should also develop and implement a comprehensive training in 2012 on evidence-based programming.

Focus

35. The UNFPA programme is delivered by the Fund's country offices by means of establishing annual workplans (AWPs) with implementing partners to deliver the agreed deliverables. In 2010, UNFPA had a total of 2,310 AWPs. Of these, 2,151 pertained to country offices and 159 to headquarters. Further, UNFPA had 1,435 implementing partners, of which 1,295 pertained to country offices and 140 to headquarters. Based on the current structure of programme delivery, managing such a large number of AWPs and implementing partners is a high risk for the organization. The plethora of AWPs and implementing partners is one of the major causes for unaccounted programme expenditure and qualifications of NEX audit reports.

Recommendation 4

36. UNFPA should encourage country offices to focus their programme priorities, thus developing no more than eight outputs and reducing the number of implementing partners and AWPs to a manageable size. In this way, immediate gains could be achieved in programme monitoring and evaluation and programme financial management including national execution.

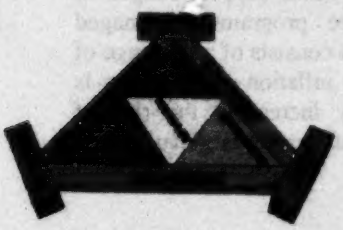
Standardization versus flexibility

37. UNFPA faces the significant challenge of effectively managing and overseeing a highly decentralized operation. A significant portion of programme expenditure is incurred and managed by decentralized units (country offices) which operate with a high level of delegated authority. In the past few years, country offices have suffered from significant weaknesses in the areas of financial operations, programme management, procurement, asset management and human resources. Repetitive audit recommendations year after year indicate that these issues are not being addressed in a sustainable manner. While many of those issues are a consequence of shortcomings in UNFPA governance and control arrangements (as noted earlier in this report), they are rooted in the use of a standard country office business model that is no longer adapted to the variety of challenges and risk level of programme operations. The current typology guiding the geometry of country offices does not offer the flexibility required to fully match resources to needs.

Recommendation 5

38. While complying with Executive Board decision 2000/19: Review of the system for the allocation of UNFPA resources to country programmes, UNFPA should develop a flexible process to better align programme resource allocation with beneficiaries' needs.

D. Linking governance and people: Structure



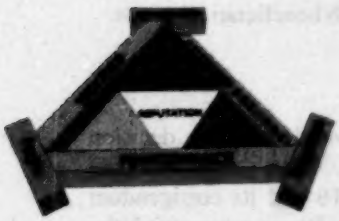
39. When the Executive Board adopted decision 2007/43 approving the UNFPA organizational structure (see DP/FPA/2007/16 and its corrigendum DP/FPA/2007/16/Corr.1), the Board recognized the need for a more suitable structure for UNFPA that would enable the Fund to respond more effectively to the needs of countries. The restructuring of UNFPA, often inappropriately called "regionalization", is a complex devolution combining deconcentration (a term which, in a governmental context, refers to the process by which the agents of central government control are relocated and geographically dispersed) and decentralization (a term which, in a governmental context, refers to the transfer of powers from central government to lower levels in a political-administrative and territorial hierarchy). At UNFPA, the deconcentration has been implemented through the relocation of former geographical divisions from UNFPA headquarters in New York to regional offices with both technical and programmatic functions. The devolution that started in 2007 is still in progress, the Arab States Regional Office and the Eastern Europe and Central Asia Regional Office were established, respectively, at the end of 2010 and beginning of 2011. Both regional offices, however, work in precarious conditions. The ambiguities of the terms of reference of the regional offices ("leadership, guidance, support, coordination, oversight") have contributed to a vacuum in quality assurance (headquarters rejecting accountabilities that regional offices cannot assume and vice versa), blurred lines of responsibilities and accountability, and severed the structural link between headquarters and country offices representatives. The risk of fragmentation mentioned in the 2009 DOS report (DP/FPA/2009/5) remains high. As pointed out by the external auditors in their report A/65/5/Add.7, there is no evidence that internal controls have been developed to take measure of the new structure and to mitigate its inherent risks.

Recommendation 6

40. At the Board's second regular session 2012, UNFPA should submit an assessment report on the new structure after a review of the headquarters, regional offices and country offices. This report would also inform the design of the new strategic plan, 2014–2018.

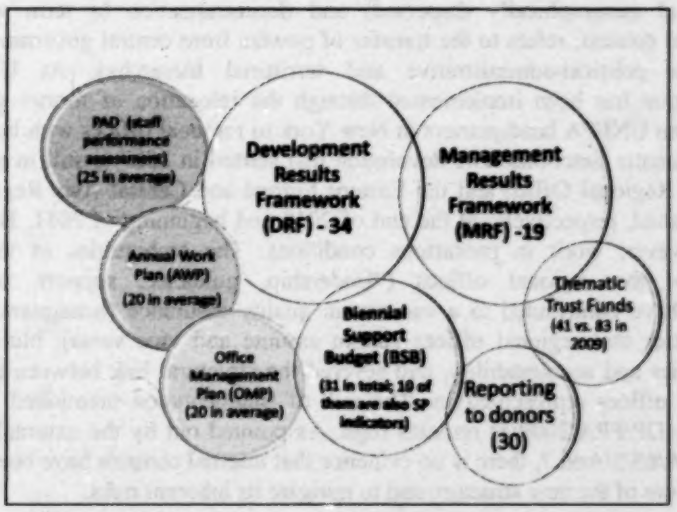
E. Linking programme and people: Performance

Performance measurement



41. UNFPA has a multitude of indicators (see figure 8 below). For example, there are more than 70 high-level indicators in the strategic plan, 2008-2013, including in the management results framework, development results framework and the biennial support budget. In addition to these, the core programme managed through the annual workplans consists of an average of 20 indicators per AWP. The inflation of indicators is indicative of the fragmentation of the programme, thereby increasing the risk of managing it. UNFPA faces a risk in managing a programme with such a large volume of indicators.

Figure 8
Number of indicators


PAD (staff performance assessment) (25 in average)
Development Results Framework (DRF) - 34
Management Results Framework (MRF) -19
Annual Work Plan (AWP) (20 in average)
Thematic Trust Funds (41 vs. 83 in 2009)
Office Management Plan (OMP) (20 in average)
Biennial Support Budget (BSB) (31 in total; 10 of them are also SP indicators)
Reporting to donors (30)

Recommendation 7

42. UNFPA should take the opportunity of the midterm review of the strategic plan, 2008–2013, to streamline indicators, improve their relevance, specificity and measurability, and simplify the results framework.

Culture of accountability: Accountability claims and behaviour

43. There is a clear inadequacy between the rating of individual performance and the overall commitment to accountability. According to a recent report on the performance appraisal and development (PAD) system, only two out of 2,000 staff appraised were

considered not performing. The case of national execution could be used as a good example of accountability issues in UNFPA. The management of national execution by UNFPA has been sanctioned by a qualified opinion by the external auditors because of poor programme management and monitoring. This qualification has been a source of frustration and ad hoc reactions, including an attempt to link the ratings of NEX audit with the performance of managers. Accountability cannot be decreed but requires first the empowerment of employees via appropriate means, including tailored training and effective internal communication. The evidence provided in section V, B. Human resources: People, shows that changing the culture of accountability will take more time and will require more resources than expected.

Recommendation 8

44. UNFPA should:

- Review job descriptions and identify skills and expertise required for key positions. This review should start first at country level. The review should take into consideration the various types of operations and depart from the old business model based on country office typology.
- Define in a transparent manner lines of responsibilities, supervision and accountability, as well as key performance indicators.
- Use the PAD system to promote accountability of performance as measured by key performance indicators.
- Develop or outsource the development of standard training packages and organize annual training sessions for newly appointed professionals. The use of e-learning may be developed as a complement to these institutional trainings.

Monitoring and evaluation

45. Monitoring and evaluation have a strategic role to play in informing UNFPA programmes. DOS reports have found and highlighted the following recurrent findings:

- Long delays in staffing M&E officer positions impact country offices' accountability and may also foster ineffective and inefficient programme performance. UNFPA M&E function at country-office level is critical in a context marked by the necessity to increase development partners' ownership and leadership of the evaluation process.
- M&E activities are largely perceived by staff as add-on tasks or administrative procedures rather than as an essential learning and quality assurance process within the organization.
- Due to insufficient guidance on M&E (objectives and methodology), country offices implement M&E activities in an irregular manner.
- Country offices' current practice of M&E addresses first and foremost compliance. The information emerging from current practices does not provide managers and decision makers with an understanding of the success or failure of the programme, and hence does not produce evidence that can be used for future programming.
- The quantity and quality of evaluations produced in and by UNFPA are unsatisfactory. They should involve implementing partners in a more systematic way

as prescribed by the evaluation policy of UNFPA and General Assembly resolution 62/208.

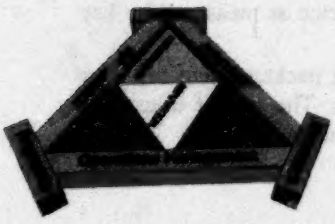
Recommendation 9

46. UNFPA should integrate the M&E function within country offices' cycle of operations. The effective recruitment of M&E officers has yet to be seized as an opportunity and necessary step towards the creation of a more formalized results-oriented M&E system to support evidence-based programming and evidence-based management of country offices' programmes and activities.

47. UNFPA should also pursue its efforts to develop a solid country programme evaluation methodology to better contribute to the evidence required for making informed programming decisions, better respond to evaluation questions that are of interest to stakeholders while enhancing the involvement of programme countries.

F. Linking programme and governance: Operations management

Management approach



48. In the year 2010, the management of UNFPA made serious efforts to correct deficiencies and to respond to the Executive Board, external audit and United Nations system-wide requirements. The initiatives included, inter alia, the implementation of the International Public Sector Accounting Standards by 2012; development of an internal control framework (ICF); implementation of the new organizational structure; creation of evidence-based programming; results-based management (RBM); enterprise risk management; and business continuity management. The Division for Oversight Services supported these significant initiatives by providing advisory services on many topics, as much as its resources would allow. However, this intensive endeavour could produce more tangible results if:

- Each of these initiatives could be better integrated rather than generating its own committee or working group with a mandate that, at times, would overlap with the responsibilities of line managers or division directors.
- Lines of accountability could be clarified. The recourse to committees and working group makes it difficult to identify business owners and assign responsibilities.
- The approach could be inspired by a strategic vision, and supported by an adequate internal communication to prevent a fragmented and ineffective approach.

Recommendation 10

49. UNFPA should adopt a more rational, integrated and strategic approach to management, following the logical approach recommended by the International

Organization of Supreme Audit Institutions (INTOSAI)[4] to better articulate risk management, internal controls and policies. This would help to assess priorities, timing and resources needed for these important internal reforms.

Risk management

50. For the past five years, the Executive Board has urged UNFPA to better manage risks. Risk management should be seen as a coordinated process to help UNFPA identify, assess and respond to internal and external risks within its risk appetite and to also inform the strategic priorities of the Fund. In 2010, management commissioned a consulting company to define the outlines of a risk-management strategy and recruited a senior risk management adviser who initiated a risk assessment with senior management on the subject. However, risk management has not been sufficiently promoted within the organization. The chosen top-down approach has been too theoretical to be perceived by line managers as a useful and practical tool. Management is working on a more practical approach and is preparing a plan of implementation for the next two years.

Recommendation 11

51. UNFPA should comply with Executive Board decisions 2006/8, paragraph 3; 2006/13, paragraph 6; 2007/10, paragraph 5; 2008/13, paragraph 14; 2009/15, paragraph 16; and 2010/22, paragraph 14; and ensure that risk management is a systematic approach embedded in the culture of UNFPA and drives decision-making, the design of control activities including those in the ERP system.

Internal controls

52. The Executive Board and the Audit Advisory Committee have urged management to implement an internal control framework in line with the internationally recognized best practices recommended by INTOSAI. In July 2010, DOS issued an advisory services memorandum to management outlining the steps required to enable the completion of a fully INTOSAI/Committee of Sponsoring Organizations of the Treadway Commission (COSO) compliant internal control framework. The United Nations Board of Auditors has also emphasized the weaknesses of and the lack of compliance with internal controls. To date, limited progress has been achieved beyond the initial completion, with the assistance of a consulting firm, of a control activities framework for six business processes. Management has documented existing controls on a web-based application, an interesting initiative whose pertinence and effectiveness must be assessed. The framework developed does not address control activities for other processes; programme planning, budgeting, implementation and monitoring; and information and communications technology. A thorough risk assessment and management are necessary to ensure the usefulness of the framework.

[4] INTOSAI, *Guidelines for Internal Control Standards for the Public Sector – Further Information on Entity Risk Management*, INTOSAI GOV 9130. Available from http://www.issai.org/composite-194.htm.

Recommendation 12

53. UNFPA should comply with Executive Board decisions 2007/10, paragraph 4; 2007/29, paragraph 3; 2008/13, paragraph 16; 2009/15, paragraph 16; and 2010/22, paragraph 14; and should continue to develop an internal control framework following international guidance and standards. UNFPA should also ensure that staff are fully trained in using and monitoring internal controls.

Information and communications technology controls and architecture

54. UNFPA could significantly improve its ICT control environment through a complete reassessment and revamping of UNFPA current technology and applications architecture. Specific areas that need to be looked into to enhance the ERP system include:

- Approval requirements and workflows for procurement and payment transactions.
- Automated and configurable controls (i.e., receiving of goods and services procured and management and tracking of cash advances).
- Management and control of service contracts and special service agreements, which account for a significant portion of payroll costs.
- Management and monitoring of programme/project implementation and budget utilization.
- Management of implementing partners and processing and payment of payment requests.
- Monitoring of financial transactions and compliance with policies and procedures.

Recommendation 13

55. Given the rapid changes in technology, UNFPA should undertake a complete reassessment of its ICT architecture, including the organization, management and staffing of the MIS Branch. Failure to invest in information and communications technology will prevent UNFPA from implementing an organization-wide solution to its systemic operations and controls issues. More importantly, the assessment will also support UNFPA in identifying strategic opportunities in enhancing and aligning the ICT strategy, organization and governance arrangements.

National execution

56. In 2010, DOS conducted an assessment of the 2009 NEX. Total NEX expenditures for 2009 amounted to $209 million ($172 million in 2008), corresponding to over 2,300 projects delivered by over 1,295 implementing partners at 132 country and regional offices and headquarters units. NEX expenditures amounting to $145 million (69 per cent of NEX expenditures) were planned to be audited for 2009 based on the applicable audit terms of reference, under which direct payments made on behalf of implementing partners were excluded from the scope of the audits. As of 31 December 2010, UNFPA had received 592 of the 706 NEX audit reports due for 2009, covering NEX expenditures amounting to $122 million (58 per cent of total NEX expenditures for the year).

57. As illustrated in table 4, the results obtained as regards 2009 show a deterioration of the NEX audit process performance in comparison to 2008. The 2009 NEX audits resulted in: (a) a larger number of qualified audit reports; (b) a higher amount of unsupported expenditure; and (c) an increase in the number of reports that were submitted late and in the expenditure amount for audit reports that were not submitted (although the number of audit reports not submitted slightly improved in percentage terms).

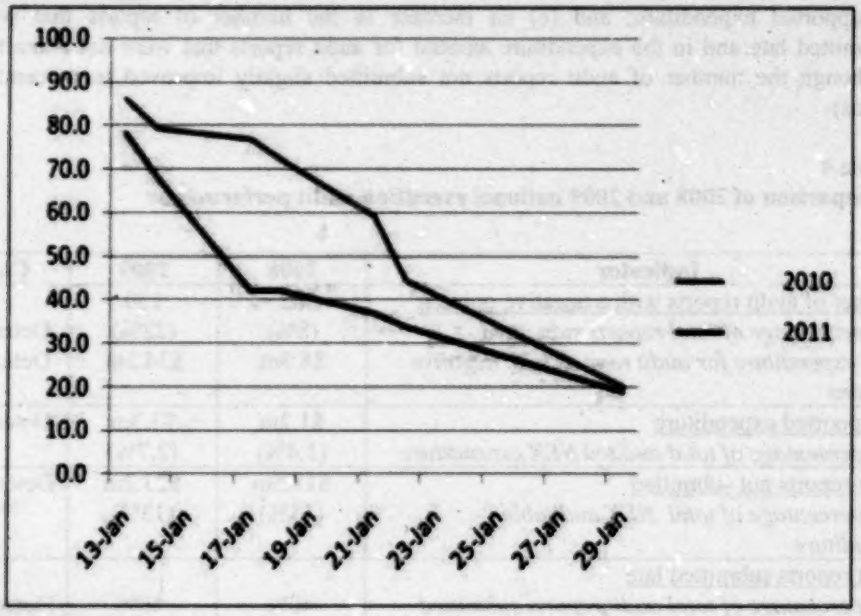
Table 4
Comparison of 2008 and 2009 national execution audit performance

Indicator	2008	2009	Change
Number of audit reports with a negative opinion[5]	82	130	
As a percentage of total reports submitted	(8%)	(22%)	Deterioration
Total expenditure for audit reports with negative opinions	$8.3m	$34.2m	Deterioration
Unsupported expenditure	$1.2m	$3.3m	Deterioration
As a percentage of total audited NEX expenditure	(1.4%)	(2.7%)	
Audit reports not submitted	$18.5m	$23.2m	Deterioration
As a percentage of total NEX auditable expenditure	(15%)	(13%)	
Audit reports submitted late			
As a percentage of total audit reports submitted	40%	46%	Deterioration

58. The OFA/NEX advances are funds provided to implementing partners on a quarterly basis for the implementation of UNFPA-supported programmes, projects and activities. In 2010, DOS expressed serious concerns to UNFPA management over the management of and the high OFA/NEX balance. In response to these concerns, management at headquarters and country offices undertook a series of proactive initiatives to reduce OFA/NEX balance levels. These efforts contributed to a decrease in OFA/NEX balance. However, as shown in figure 9, the pace of liquidation of this account in less than three weeks continues to raise questions about the adequacy of financial reporting by country offices.

[5] Qualified, modified and adverse opinions and disclaimers of opinion.

Figure 9
Evolution of operating fund account/national execution balance January 2010 and 2011 (in millions of $)



59. For the past three years UNFPA has made considerable efforts to address NEX audit issues. The recent development such as the hiring of an international audit company may bring significant improvement in the quality of NEX audits. However, audit results are only the symptoms of the quality of controls that are in place to mitigate risks. The major cause rests with the difficulties of many country offices to: (a) assess implementing partner capacities and risks; (b) select implementation modalities commensurate with the risks level assessed; (c) plan, manage and monitor annual workplans; and (d) process, monitor and record expenditures. These difficulties result in a high level of unaccounted advanced funds (operating fund account). National execution is a UNFPA management issue that requires a locally implemented solution supported globally by a strong institutional commitment.

Recommendation 14

60. UNFPA should address the root causes of deficiencies pertaining to programme implementation and execution modalities while continuing to follow up on the recommendations of the external auditors. (See also recommendations 3 and 4).

International Public Sector Accounting Standards

61. The implementation of IPSASs was approved in 2006 by the United Nations High-level Committee on Management (HLCM) for financial statement periods commencing no later than 1 January 2010. The implementation deadline for UNFPA was subsequently

deferred to 1 January 2012, to enable a "full" implementation of the standards (as opposed to a phased implementation, as initially planned) and endorsed by the Executive Board in decision 2009/15.

62. In 2010, DOS performed an assessment of the UNFPA strategy and approach for implementing IPSASs. The assessment revealed the existence of significant issues which could adversely affect UNFPA ability to complete an effective implementation of IPSASs by the established deadline. The issues noted include:

- Ineffective project governance by the IPSASs Project Board.
- Lack of clearly defined milestones.
- Lack of analysis of the full implications of the adoption of standards concerning day-to-day operations and new required skills and expertise.
- Lack of clear identification of the owners of the business processes impacted by the implementation.
- Weaknesses in the communications and training strategy.
- Delays in recruiting resources with the required skills and experience.
- Limitations in project reporting and monitoring to measure the project's progress against key targets.

63. It should be noted that many of these issues are consistent with those previously identified and reported by the United Nations Board of Auditors. Despite noteworthy efforts made by management to implement IPSASs, significant risks still remain and urgent measures need to be taken to manage these risks more effectively if UNFPA is to realize the objectives set out for implementing IPSASs by 1 January 2012.

Recommendation 15

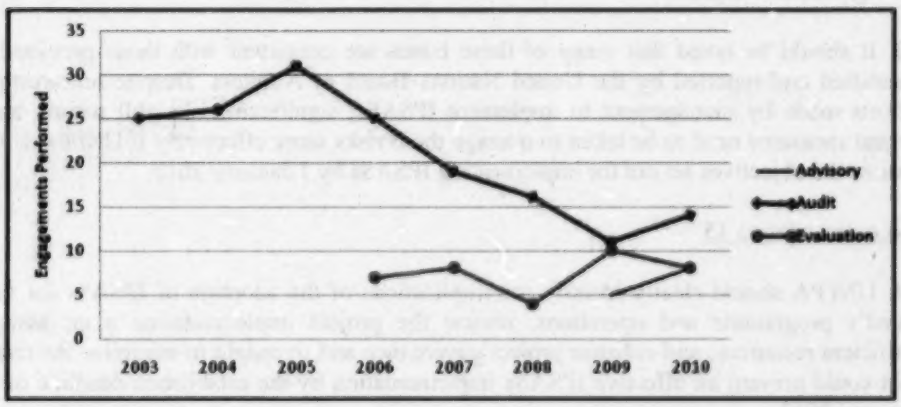
64. UNFPA should clearly identify the implications of the adoption of IPSASs for the Fund's programme and operations; review the project implementation plan; assign sufficient resources; and enhance project governance and oversight to minimize the risks that could prevent an effective IPSASs implementation by the established deadline of 1 January 2012.

ANNEX 1: ACTIVITIES OF THE DIVISION FOR OVERSIGHT SERVICES

Audits

1. The Division for Oversight Services (DOS) completed 16 oversight engagements in 2010. The work of the Division is indicated in the figure below. Oversight engagements covered six country offices in the Africa region (for one of them, both harmonized approach to cash transfers to implementing partners (HACT) and country programme audits were performed) and three country offices in the Arab States region. Seven of the engagements addressed both audit and evaluation matters. Headquarters engagements included assessments of information and communications technology controls; the 2009 nationally executed expenditure audit process; the International Public Sector Accounting Standards (IPSASs) implementation project; travel operations; and the purchasing card programme. DOS also performed a joint audit and evaluation assessment of the UNFPA thematic trust funds. In addition, the Division conducted five advisory services during the year.

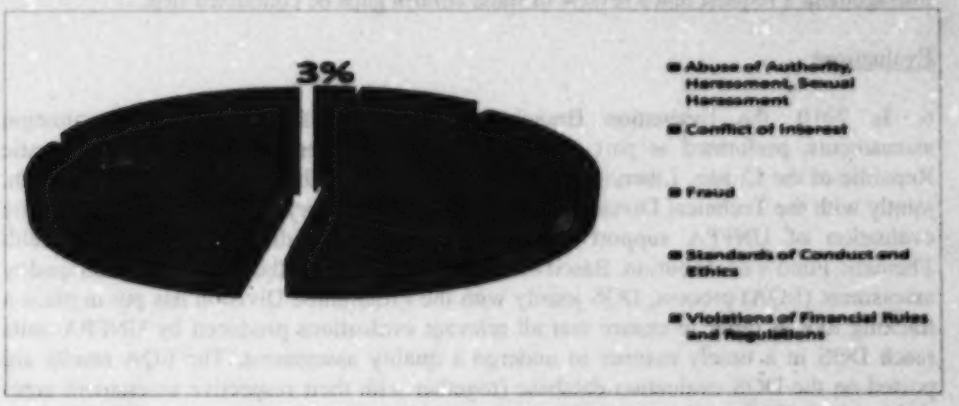
Activity of DOS



Investigations

2. A total of 48 cases have been managed by the Investigation Branch in 2010 (38 new incoming cases in 2010 and 10 cases carried forward from 2009). The five major categories of complaints received in 2010 are described in the figure below. The majority of investigations (84 per cent) received in 2010 were referrals and/or complaints from either management or personnel (including whistleblowers).

2010 types of complaints



3. Of the total caseload of 48 cases received in 2010 and carried over from 2009, DOS closed 33 cases and reported 21 cases to management and other agencies. As of January 2011, 15 cases relating to 2010 remain in progress. The 33 cases addressed during 2010 are identified as in the table below. DOS has recommended action on 17 cases reported to management. On six cases, the Executive Director has taken action to terminate personnel based on evidence of misconduct, including one referral to national authorities for prosecution. On 11 cases, management action is awaited. The investigated cases have provided evidence of misuse of funds for a total amount of approximately $602,000, less than 0.1 per cent of annual expenditure.

Closing of investigations in 2010

	Number	Percentage
Complaints closed after preliminary assessment	12	36
Reports to other UNFPA Divisions	3	9
Formal report issued to Executive Office	17	52
Reports to sister agencies	1	3
Cases leading to formal action or being closed by management	6	35
Total cases investigated	33	100

4. An Investigation Branch Intranet site has been created in order to educate staff members on the investigation policies and processes and also to keep them informed on related statistics (number of cases reported, investigated and management action taken) thereby further promoting transparency in the organization. The Intranet site also represented an opportunity to re-launch the awareness of the existence of a misconduct reporting hotline in five official United Nations languages.

5. Detection activities in 2011 will focus on the implementation of a forensic continuous monitoring system, in cooperation with the Division for Management Services. Support for the implementation of this system was granted by the Executive

Board in 2010. Procurement for this system was initiated in late 2010 because of management's request that a review of fraud control gaps be conducted first.

Evaluations

6. In 2010, the Evaluation Branch undertook the following seven evaluation assessments, performed as part of DOS oversight engagements[6]: Angola, Democratic Republic of the Congo, Liberia, Malawi, Sudan and Zimbabwe. The Evaluation Branch, jointly with the Technical Division, completed the preparatory work for its 2011 thematic evaluation of UNFPA support to maternal health, including the Maternal Health Thematic Fund's contribution. Based on lessons learned from the 2009 evaluation quality assessment (EQA) process, DOS jointly with the Programme Division has put in place a tracking tool in order to ensure that all relevant evaluations produced by UNFPA units reach DOS in a timely manner to undergo a quality assessment. The EQA results are posted on the DOS evaluation database (together with their respective assessment note) and will feed into the 2012 biennial evaluation report. The Evaluation Branch methodology was substantially revised in 2010 based upon the lessons learned from the oversight engagements of 2009 and 2010. This led to noticeable improvements in the evaluation process (desk phase, field phase and reporting phase) and deliverables.

Other activities

7. The UNFPA Division for Oversight Services actively supported inter-agency cooperation and United Nations reform and participated in several formal working groups including the United Nations Development Operations Coordination Office (DOCO) and professional networks, including the Representatives of the Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (RIAS), the United Nations Evaluation Group (UNEG), and the Conference of Investigators of the United Nations system. DOS contributed to harmonizing inter-agency audit efforts and moving towards the One United Nations Initiative by leading the first inter-agency audits of the HACT in Malawi and Viet Nam, undertaken with the participation of members from UNICEF and UNDP in September 2009 and February 2010, respectively. In these engagements, a new HACT audit methodology was developed, tested and found to be effective in auditing the HACT process.

8. Informal exchanges with the investigative bodies of other agencies included sharing of methodologies, approaches and techniques to conduct investigations. The Investigation Branch actively provided investigative assistance to an agency on an investigation that proved serious misconduct by members of its personnel. Communications were also initiated with another agency in view of developing a joint investigation on allegations of serious misconduct perpetrated by colluding personnel.

[6] For a definition of "oversight engagement" see annex 2.

ANNEX 2: REPORTS ISSUED IN 2010

Oversight engagement of thematic trust fund	[illegible]	Partially satisfactory
Evaluation quality engagement 2007-2008	[illegible]	*No rating assigned*
Joint audit of the harmonized approach to cash transfer in Viet Nam (UNDP/UNFPA/UNICEF)	[illegible]	*No rating assigned*
Oversight engagement of the UNFPA country office in Malawi	[illegible]	Unsatisfactory
Oversight engagement of the UNFPA country office in Liberia	[illegible]	Partially satisfactory
Oversight engagement of the UNFPA travel function	[illegible]	Partially satisfactory
Oversight engagement of the UNFPA country office in Ethiopia	[illegible]	Unsatisfactory
Audit of the purchasing card programme	[illegible]	Partially satisfactory
Oversight engagement of the UNFPA office in Sudan (Khartoum)	[illegible]	Unsatisfactory
Oversight engagement of the UNFPA office in Southern Sudan (Juba)	[illegible]	Unsatisfactory
Advisory on evaluation in UNFPA	[illegible]	*No rating assigned*
Oversight engagement of the UNFPA country office in Angola	[illegible]	Unsatisfactory
Oversight engagement of the UNFPA country office in Somalia	[illegible]	Unsatisfactory
Information and communications technology controls risk engagement	[illegible]	*No rating assigned*
Oversight engagement of the 2009 NEX audit process	[illegible]	Unsatisfactory
Oversight engagement of the UNFPA country office in the Democratic Republic of the Congo	[illegible]	Unsatisfactory
Oversight engagement of the UNFPA country office in Zimbabwe	[illegible]	Unsatisfactory

N.B. The scope of an oversight engagement encompasses all aspects of an operation including compliance, financial and managerial processes, country programme relevance and evaluability, efficiency and effectiveness of controls. It involves a larger team of auditors and evaluators than an audit. The scope of an audit is more restricted, including compliance, financial and managerial processes. It only involves auditors.

ANNEX 3: RECURRENT ISSUES

The following two matrices respectively provide a detailed review of recurrent audit issues for country offices and recurrent evaluation issues for country offices. Issues recurring at a rate between 30 per cent and 60 per cent and at a rate above 60 per cent for a given area or cause are rated as "common" and "very common", respectively.

Significant recurrent audit issues for country offices

Audit area/cause	Issue prevalence		Most significant recurrent oversight issues	Recommendations to address the issues
	2009	2010		
External risk				
General administration: inadequate security, safety and protection of staff and premises	Common	Common	Lack of compliance with security standards exposing UNFPA to liability in the event of security incidents	Perform more frequent minimum operating security standards (MOSS) assessments and monitoring of non-compliant operations
Relationship risk				
Financial operations and controls: lack of accountability in operational activities for development (national execution, NEX)	Very common	Very common	Insufficient assessment of implementing partner capacities Utilization of implementation modalities not aligned to operational challenges and implementing partners capacities Ineffective implementing partner capacity-building strategies Delays in funding to implementing partners and project initiation	Perform a more rigorous assessment of implementing partner capacities as a basis to determine the most appropriate implementation modalities and to determine the scope and frequency of monitoring Reinforce and sustain implementing partner capacity-building activities Ensure an earlier completion, approval and signing of key documents such as letters of understanding and annual workplans Enhance controls as regards submission, review, approval and timely payment of funding requests Increase the scope and frequency of monitoring for projects implemented by partners with weak capacities

Audit area/cause	Issue prevalence 2009	Issue prevalence 2010	Most significant recurrent oversight issues	Recommendations to address the issues
			Insufficient monitoring of project implementation by implementing partners Poor planning, coordination and monitoring of NEX audits	Enhance the process and controls to ensure that NEX audits are timely planned and completed and that audit issues are timely and effectively resolved
Programme management: weak programme planning, implementation and monitoring	Common	Very common	Late planning and initiation of project implementation activities Unclear or outdated annual workplans Discrepancies and lack of support and revision of project budgets Insufficient monitoring of programme implementation and outcomes due to lack of staff, processes and tools	Enhance the planning process to ensure a more accurate and timely completion of annual workplans - implement an automated application to support preparation and maintenance of annual workplans and budgets Increase the scope and frequency of project monitoring and ensure that appropriate tools and resources are deployed to support it
			Process risk	
Financial operations and controls: weak budgeting, accounting and financial reporting	Very common	Very common	Lack of reconciliation of project expenditures to budgets Recording of procurement and other financial transactions in the wrong ledger, project, activity and fund codes Lack of reconciliation of NEX expenditures recorded and operating fund account balances to the corresponding funding authorization and certificate of expenditures (FACE forms)	Ensure that actual expenditures are regularly reviewed by project officers and reconciled to project and activity budgets Enhance the controls to ensure the accurate and timely recording of financial transactions, including their review by project and operations managers Enhance the controls over the review, recording and reconciliation of certificates of expenditures submitted by implementing partners

Audit area/cause	Issue prevalence		Most significant recurrent oversight issues	Recommendations to address the issues
	2009	2010		
			High level and ageing of, and adjustments to, operating fund account balances	Implement a more rigorous process for monitoring the balance, trend and ageing of the operating fund account and of adjustments thereto
General administration: weak purchasing and disbursement procedures and practices	Common	Very common	Deviations from procurement policies and procedures as regards bidding and purchase approval	Enhance controls to ensure that procurement transactions are in compliance with procurement policies and procedures Enhance the purchase order and accounts payable voucher approval workflow within Atlas
General administration: weak asset management procedures and practices	Very common	Very common	Incomplete fixed asset records Assets transferred to implementing partners not timely removed from fixed asset records	Enhance controls over fixed asset capitalization and transfers to implementing partners Enhance the effectiveness of the annual fixed asset inventories
Financial operations and controls: inappropriate handling of cash	Common	Common	Lack of tracking of cash advances to staff and implementing partners Lack of proper supporting documentation of payments made	Minimize the use of cash advances to the greatest possible degree allowed by operational conditions Enhance the process and controls for tracking and adjusting cash advances paid Enhance the review and approval of financial transactions to ensure that payments can only be made on the basis of appropriate and valid supporting documentation

Audit area/cause	Issue prevalence		Most significant recurrent oversight issues	Recommendations to address the issues
	2009	2010		
People risk				
Human resources: inappropriate human resource practices and capacity	Very common	Very common	High vacancy rates and turnover in key management and operational positions	Implement a proactive succession planning process Ensure that vacancies are timely filled and increase headquarters and regional office support to country offices impacted by prolonged vacancies and high turnover rates
			Inadequate organizational structure arrangements and lack of resources commensurate with the complexity and size of the operation	Enhance staff capacity-building and training in key compliance, control and operational matters Implement a more rigorous risk assessment process to ensure that country offices have the organizational structure and the resources required for effective programme delivery

Significant recurrent evaluation issues for country offices

Audit area/cause	Issue prevalence		Most significant recurrent oversight issues	Recommendations to address the issues
	2009	2010		
Relationship risk				
Programme: unreliable identification of events impairing achievements	Very common	Very common	Lack of evidence-based programming notably in the field of sexual and reproductive health where there is a noticeable lack of focus on interventions capable of efficiently and effectively contributing to the reduction of maternal mortality	In consultation with relevant regional offices and headquarters, undertake a critical appraisal of sexual and reproductive health programming so that resources can be concentrated on those interventions having the greatest effects on improving maternal mortality
			Training activities are not sufficiently underpinned by a comprehensive human resource development strategy and therefore fail to build, in an optimal and sustainable manner, the capacity of national counterparts' capacity and UNFPA country offices	Training activities should be designed and implemented within the partner institutions' broader human resources strategic plans so as to build capacity of national partners and UNFPA country offices in a sustainable manner
	Common	Common	Mainstreaming of gender equality within population and development as well as sexual and reproductive health components has not been institutionalized leading to a loss of synergies between the three mandate areas of UNFPA	Identify internal mechanisms in view of institutionalizing gender mainstreaming within the cycle of operations in order to ensure staff ownership over a process guided by programme officers
			Reproductive health commodity security (RHCS) is not sufficiently addressed within a broader approach of the national health systems	Support the development of an RHCS strategy which includes forecasting, procurement, logistics, storage, distribution/delivery, quality assurance, roles of government and private sector

Audit area/cause	Issue prevalence 2009	Issue prevalence 2010	Most significant recurrent oversight issues	Recommendations to address the issues
Programme: lack of clarity in organizational objectives	Common	Common	Insufficient focus on generating realistic expected results and targets due to a lack of fit between country offices' limited resources/capacities and ambitious portfolios	Complete cost-effectiveness exercise to prioritize and guide selection of activities including geographical coverage (and related operating costs)
	Very common	Very common	UNFPA interventions in the field of population and development (and notably implementation of censuses) are not adequately recorded within the United Nations Development Assistance Framework (UNDAF), creating risks in terms of securing: (a) financial resources; and (b) UNFPA visibility at United Nations country team (UNCT) level	Ensure highest visibility of all UNFPA activities, related participation in the UNDAF thematic areas, and UNCT support to the country offices' work in the field of population and development. In particular, UNFPA role in the area of census must be clearly inserted within the UNDAF results and resources matrix
Process risk				
Poor programme planning, implementation and monitoring	Very common	Very common	The monitoring and evaluation system is too weak to sustain results-oriented monitoring activities. As a result, monitoring and evaluation findings and recommendations are given insufficient consideration in the programme design and operations cycle	Formalize the role/function of monitoring and evaluation within the cycle of operations and promote monitoring and evaluation as the responsibility of all staff (i.e., staff ownership over a process guided by a monitoring and evaluation officer)
Inadequate results-based management and poor quality evaluations	Very common	Very common	Lack of evaluation culture leading to insufficient and irregular evaluation activities (midterm reviews are often not performed; end-of-programme evaluations are also not undertaken in a systematic manner). Overall, there is no reasoned approach to ensure that evaluation can help capture lessons learned and produce evidence for future programming	Ensure that sufficient resources, as well as adequate tools and methodological apparatus are dedicated to evaluations

ANNEX 4: ANNUAL REPORT OF THE AUDIT ADVISORY COMMITTEE

United Nations Population Fund
Audit Advisory Committee
2010 Annual Report to the Executive Director

Purpose

1. Pursuant to item 14 of its terms of reference (TOR), and in accordance with paragraph 14 C section IV, subsection F of the UNFPA oversight policy, this report to the UNFPA Executive Direc provides a summary of the activities and strategic advice of the Audit Advisory Committee (AAC) of United Nations Population Fund during 2010.

Audit Advisory Committee activities in 2010

2. AAC TOR: The Executive Director approved a revised TOR for the AAC in December 20 While revisions were principally administrative in nature, it should be noted that item 15 now states: "T Chairperson of the AAC has free and unrestricted access to the President of the Executive Board."

3. Committee members: During 2010, the AAC was composed of four members, all external UNFPA, and therefore independent from UNFPA and its administration and management. Commit members possess the required expertise in risk management and control, financial management a reporting, and development and programme matters. In November 2010, a fifth member was appro effective January 1, 2011. Further, as of December 31, 2010, one Committee member, whose three-y term had ended, rotated off the Committee. The AAC has an ongoing rotation and recruitment process ensure that membership is staggered to provide continuity. It is anticipated that a fifth member will identified in mid-2011.

4. Meetings: The AAC held five official meetings in 2010, four in-person meetings (in Februa April, June and November) and one teleconference in July 2010. UNFPA participants in the meetin included the Executive Director, the two Deputy Executive Directors, programme and operational sen management, as relevant, the Director of the Division for Oversight Services (DOS), and the exter auditors. As required, the AAC met without management present and had separate in-camera meetin with the Executive Director, the Director of DOS, the Ethics Officer and the external auditors. The Ch of the UNFPA AAC also participated in the UNDP/UNFPA Executive Board annual session 2010 held Geneva. In addition to the formal AAC meetings, Committee members continued their inter consultations and deliberations, document review, and provision of advice to UNFPA management telephone and e-mail interaction.

5. Reporting: Minutes from the AAC meetings were prepared. In accordance with item 13 of AAC TOR, the Committee formally reported back to the Executive Director after each meeting. T Committee or Chair briefed the Executive Director either in person or by telephone.

6. Assessment of the Committee's effectiveness: The Committee undertakes an annual se assessment exercise to confirm the appropriateness of its TOR and assess its effectiveness. T Committee also makes recommendations, as necessary, during each meeting and follows up periodica on the implementation of those recommendations by UNFPA management.

7. Performance assessment of the Director of DOS: In accordance with item 16 of its TOR, the AAC (via its Chair) provided written input on the performance of the Director of DOS to the UNFPA performance appraisal and development system. Also, in view of the forthcoming retirement of the Director of DOS and in accordance with the TOR, the AAC will "participate in, review and advise on the selection of the Director of DOS" in 2011.

8. Field visits: To augment the Committee's understanding of the UNFPA mission and restructuring efforts, all AAC members regularly participate in field visits to strengthen their knowledge of UNFPA operations. While no field visits were conducted in 2010, the following field visits were undertaken in 2009: regional offices in Panama, South Africa and Thailand; and country offices in Morocco, Nepal, Peru and Sri Lanka. In total, Committee members devoted over 22 person days to on-site activities in regional and country offices in 2009. In June 2010, the AAC provided a summary report to the Executive Director highlighting common themes and issues noted during the 2009 field visits and made some suggestions for consideration by UNFPA management. With the concurrence of the UNFPA Executive Director, AAC members elected to visit both regional and selected country offices in 2011.

9. External auditor coordination and communication: The AAC meets regularly with the UNFPA external auditor, the United Nations Board of Auditors, to share relevant information and understand strategies implemented to ensure overall audit coverage of UNFPA, which includes the work performed by DOS. The Committee had substantive discussions with representatives of the Board of Auditors at each of its in-person meetings.

Audit Advisory Committee strategic advice in 2010

10. Issues of concern identified by the AAC, along with the strategic advice provided to the Executive Director and UNFPA senior management in 2010, are summarized below. The AAC thanks UNFPA management for its receptivity to the Committee's advice and the Fund's actions to address the issues. However, it is important to note that several of the issues identified below were also included in the 2008 and 2009 AAC Reports.

11. In 2008, the AAC noted that UNFPA was experiencing an internal multilayered transformation. This transformation continues. During 2009 and 2010, UNFPA made substantial progress in implementing a new organizational structure while ensuring that the restructuring supported United Nations reform. However, UNFPA continues to face significant human resource, administrative and operational challenges. In addition to the reorganization, UNFPA is undergoing modifications to its enterprise resource planning system (Atlas), its financial policies and practices to support implementation of the International Public Sector Accounting Standards (IPSASs), development of an enterprise risk-management (ERM) strategy and internal control frameworks, programming enhancements to address new aid modalities, and changing operational relationships and funding mechanisms with implementing partners and other donor agencies.

12. Through the Fund's regular updates to the Committee during 2009 and 2010, the AAC has noted UNFPA progress in realizing its reorganization, intended in part to support a more field-focused and results-oriented UNFPA. In this respect, the AAC has recommended that UNFPA establish a means to assess whether the intended results of the reorganization are achieved. The AAC has stressed repeatedly the importance of identifying the key performance indicators and explicit success criteria that can be used to measure the impact of the reorganization on UNFPA effectiveness and results. While some internal human resource and administrative challenges have been noted during the reorganization, often

exacerbated by unforeseen external matters such as location choices and physical premises, the AAC supports UNFPA for its continued efforts to responsibly address all such issues.

13. With respect to the reorganization, the AAC understands that, in 2012, UNFPA will conduct an evaluation on the implementation of the reorganization and whether the intended results were achieved. DOS has also planned an audit of governance (headquarters/regional offices) in support of programme delivery in 2011. The latter will review elements of the reorganization. The Committee believes that DOS should continue to play a prominent role with respect to UNFPA restructuring by advising on an ongoing basis whether the overall internal control framework is appropriate and recommending improvements or refinements that could be implemented immediately. The Committee looks forward to reviewing the results of the 2011 performance audit and the 2012 evaluation.

14. The AAC is updated regularly on UNFPA succession and workforce planning as part of the Fund's human resource strategy and business continuity planning. The AAC supports the efforts put in place by UNFPA management to mitigate the risks identified. The AAC noted during its field visits in both 2008 and 2009 that operational staff expressed concerns and requested clarity with regard to roles and responsibilities among headquarters, regional, subregional and country offices. The AAC reiterates the importance of focusing attention on the human resource dimension of change and organizational continuity. This is particularly important in 2011 with the appointment of the new Executive Director on January 1, 2011 and the planned retirement of the Director of DOS.

15. Atlas, the enterprise resource planning system of UNFPA, is administered by UNDP. The AAC regularly discusses the critical services provided by UNDP and its Atlas system functionality. While the system upgrade in early 2009 resulted in a number of improvements, significant performance challenges were also encountered in late 2009. Based on discussions with management, the AAC understands that UNFPA and UNDP have worked collaboratively in 2009 and 2010 to stabilize Atlas and address performance and system issues. This included hardware migration to a new operating platform during 2009 and the transition to a new back-up facility in 2010 which AAC understands has improved capacity and realized cost savings. The AAC stresses the importance of ensuring that proposed future revisions and upgrades to Atlas are planned on a collaborative and timely basis between UNFPA and UNDP, coordinated with other administrative and operational initiatives, and appropriately resourced.

16. As noted above in paragraph 15, UNFPA relies on UNDP as its service provider for Atlas, and both UNFPA and UNDP use Atlas as their enterprise resource planning system. Substantial system changes must be made to prepare Atlas for IPSASs implementation. In decision 2009/15, the Executive Board (at its second regular session held in September 2009) endorsed the decision of UNDP, UNFPA and UNOPS to defer implementation of IPSASs to 1 January 2012. The AAC supports this decision. The AAC recommended in April 2009, and continues to recommend, that all Atlas partners proceed on IPSASs implementation in a synchronized fashion and create a joint IPSASs board with the appropriate level of authority in order to ensure that the implementation continues on schedule with full adoption in 2012 and not later.

17. The AAC understands that UNFPA will continue to effect accounting change enhancements over the interim until full implementation of IPSASs in 2012 to the extent that United Nations System Accounting Standards (UNSAS) allow. In 2009, the AAC recommended that a revised IPSASs implementation plan be prepared that includes a risk analysis and mitigation strategy that addresses both accounting and operational risks and identifies relationships with other UNFPA initiatives such as revisions to Atlas, the internal control framework, and the reorganization. The AAC also emphasized that

a critical success factor facilitating successful implementation of IPSASs adoption is strong leadership by management. Further to a recommendation by the AAC, UNFPA management has initiated regular dialogue with the Board of Auditors concerning IPSASs implementation. In 2010, the ACC again recommended that a revised implementation plan be prepared and updated quarterly. This implementation plan would ideally identify each relevant project, along with specific milestones and dates, and the project leader assigned to each project.

18. In accordance with the AAC TOR, the Committee is expected to "review policies significantly impacting (a) financial management and reporting; (b) the internal audit, investigation and evaluation functions; and (c) the effectiveness of UNFPA systems of internal control and accountability". In 2010, the AAC reviewed and made recommendations on relevant policies. The Committee stressed the importance of being consulted before policies that significantly impact on UNFPA business processes and operations are finalized.

19. Because the ethics function is a key contributor to UNFPA accountability and oversight, the AAC revised its TOR in 2010 to specifically identify "ethics" as an area of AAC focus (Items 3 and 16). The AAC also reviewed the mandate and current structure of the UNFPA Ethics Office along with its 2009 Annual Report. In this respect, the AAC supports the direct reporting relationship of the Ethics Adviser to the Executive Director and encourages the Ethics Adviser to support the management decision-making process, adding ethics dimensions to key strategic decisions or policy formulation. The AAC also encourages the continued strengthening of ethics communication activities along with ethics workshops and training sessions.

20. In accordance with the AAC TOR, in April 2010, the AAC reviewed the draft of the UNFPA financial statements for the biennium ended 31 December 2009. The AAC recommended some revisions to the financial statements and notes thereto to improve the clarity and quality of communication of the financial information for the biennium. At that time, there was an indication by the United Nations Board of Auditors that their report may include a qualification due to their inability to obtain adequate supporting documentation for a significant portion of the programme expenditures incurred through the national execution (NEX) modality. As had been recommended by the AAC in previous years, efforts need to be expended to seek and obtain supporting documents in order to avoid the qualification in the Board of Auditors report. Subsequent to the April 2010 meeting, the Board of Auditors issued a modified audit report with a qualification on the financial statements for the biennium 2008-2009 and an emphasis of matter.

21. The AAC reiterates its recommendation that the UNFPA management continue to collaborate with the United Nations Board of Auditors, as appropriate, on relevant financial matters including the Fund's financial statement reporting to ensure common understanding, particularly on technical issues.

22. In 2007, the AAC supported a DOS recommendation that UNFPA internal control framework be revised to be fully compliant with the International Organization of Supreme Audit Institutions (INTOSAI) standards. The internal control framework principally provides guidance with respect to control and accountability of UNFPA operations particularly at the country level. In 2008, the AAC was updated on periodic revisions to the control framework. In 2009, UNFPA management engaged a consulting firm to review the internal control framework. The AAC reiterates its position from previous years: in view of ongoing changes to UNFPA internal financial and operational policies and practices, and the evolving external environment, additional and ongoing revisions are required to ensure that internal control guidance remains relevant and practical, follows international guidance including that

from INTOSAI, and is fully compliant with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards.

23. In accordance with item 16 of its TOR, the AAC regularly reviews "DOS's function, including its charter, scope, plans, activities, resources, staffing and organizational structure".

24. During 2009, and particularly in 2010, the AAC noted a significant improvement in the quality and timeliness of DOS performance, including report issuance. Also during 2010, the Institute of Internal Auditors (IIA) conducted an external quality assessment of DOS. The principal objectives of the quality assessment were to assess the DOS internal audit activity's conformance with the *International Standards for the Professional Practice of Internal Auditing* (Standards), evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of UNFPA management), and identify opportunities to enhance its management and work processes, as well as its value to UNFPA. The assessment concluded that the DOS internal audit activity generally conforms to the Standards and the definition of internal auditing. The assessors also noted that the investigation function conforms to the United Nations investigation principles. Recommendations made to improve the effectiveness of the internal audit activity are actively being addressed by DOS. The AAC commends DOS on its performance in this respect.

25. Further to a 2008 recommendation by the AAC, DOS developed a system in 2009 whereby it monitors implementation of the recommendations from internal audits and regularly follows up with clients on the status of implementation. In 2010, DOS conducted a comprehensive semi-annual follow-up review of recommendations to respond to concerns of the Executive Board and the Board of Auditors on pending recommendations. In this way, the results of such follow-up activities help support UNFPA management's accountability by providing objective and independent evidence-based assessments concerning the status of management actions to implement recommendations made as a result of UNFPA oversight activities.

26. The AAC recommended approval in principle of the DOS audit plan 2011 and reviewed the DOS business plan 2011. The AAC noted that DOS has tailored its overall strategy to be more aligned with the needs of UNFPA, taking into consideration the change in senior management in 2011, the change in the reputation risk profile of UNFPA because of the qualified financial statements, the forthcoming change in accounting standards in 2012, and the gradual implementation of enterprise risk management. In this respect, the AAC recognizes the continued efforts of DOS to provide overall assurance and advisory services to UNFPA to support achievement of UNFPA strategic objectives. The AAC also supports DOS representation at meetings and provision of advice relating to key UNFPA business initiatives such as implementation of IPSASs, enterprise risk management, results-based management, national execution, and the harmonized approach to cash transfers to implementing partners (HACT). Through provision of such ongoing advisory services, DOS contributes on a timely basis to more effective controls and/or operational efficiencies.

27. The AAC supports the DOS risk-based annual planning process and the use of the risk model. Further to a recommendation made by the AAC, DOS undertook a risk assessment of headquarters and cross-cutting functions for its 2010 plan in addition to assessing the risk universe of country offices. In 2010, when developing its 2011 business plan, DOS further strengthened its headquarters risk analysis.

28. The AAC also supports DOS efforts to contribute to harmonizing inter-agency audit efforts. DOS led the first inter-agency audit of HACT in Viet Nam and Malawi, undertaken with the participation of members from UNDP and UNICEF, in September 2009 and February 2010.

29. The AAC reviewed the UNFPA biennial report on evaluation (DP/FPA/2010/19). The AAC appreciates the complexity of the environment within which programmes are implemented – considering the context of multiple partnerships and programme country leadership. The AAC supports the conclusion of the report and encourages further attention to improving evidence-based programme design, programmatic focus, and monitoring and evaluation. The AAC understands that improving the quality of evaluations will require an enhanced culture of evaluation and accountability for results within UNFPA.

30. The AAC regularly reviews the activities and results of the UNFPA investigation function and supports the need for additional tools such as a forensic continuous monitoring system and appropriate resources to ensure the function can effectively meet UNFPA needs.

31. The AAC has repeatedly stressed the importance of identifying whether and how DOS resource levels and capacities impact on its ability to implement its charter and provide the level of assurance necessary to support UNFPA strategic objectives. In this respect, ongoing issues with regard to the adequacy of DOS resources and recruitment challenges have been highlighted to the AAC. Many of these were addressed in 2010. The AAC appreciates the challenges of recruiting and retaining suitable candidates for DOS professional positions and how this may impact on the capacity and overall results achieved by DOS. Further, in complex and changing internal and external environments, such as those of UNFPA, a steep learning curve exists for all newly recruited employees. This underscores the importance of a flexible and appropriate staff learning plan that includes professional training to ensure continuous learning opportunities. As such, it is critical that DOS has the capability needed and resources required to ensure that sufficient coverage exists in internal auditing, evaluation and investigation work at UNFPA. This is particularly important during 2011 to assure the continued effectiveness of DOS given the succession of the Director of DOS.

32. The AAC is briefed regularly on UNFPA actions to implement the recommendations made by the United Nations Board of Auditors and supports UNFPA efforts to address the recommendations in a systematic and ongoing manner. In 2008, the AAC suggested and continues to reiterate that, as a best practice, DOS follow up the implementation status of the recommendations of the Board of Auditors. In this way, DOS could add value by supporting UNFPA management in ensuring that the actions taken to address observations are appropriate and complete. In addition, the Board of Auditors might be able to place reliance on the work of DOS and not necessarily perform additional in-depth follow-up work.

33. The NEX modality continues to be an area of high risk. As noted in paragraph 20, for the biennium ended 31 December 2009, the United Nations Board of Auditors issued a modified audit report with a qualification on the financial statements related to national execution. The AAC is briefed regularly on the efforts of UNFPA management and DOS to identify and address the underlying causes and challenges in managing and reporting on NEX. For example, in June 2009, DOS performed an assessment of UNFPA management of 2008 NEX expenditure. The objective was to obtain reasonable assurance that UNFPA resources were managed by implementing partners in accordance with their contractual arrangements with UNFPA and to provide an opinion on the validity and coverage of the assurance provided by independent auditors. The oversight assessment indicated that, for the period covered, DOS could not provide such assurance on a large portion of the 2008 NEX auditable expenditure balance because not all the necessary supporting documentation and records were available, and adequate

internal controls were not in place. In 2010, DOS conducted a similar assessment of the 2009 NEX expenditure. The results obtained in 2009 show a deterioration of the NEX audit performance in comparison to 2008. The issues identified in 2008 and 2009 by DOS and the Board of Auditors have continued into 2010.

34. The AAC understands that UNFPA senior management has designated NEX as one of its highest corporate priorities. The AAC recognizes the challenges that UNFPA faces to ensure appropriate accountability for financial and programme results while working under changing aid modalities, for example, sector-wide approaches and HACT. The AAC understands that NEX is not merely an accounting and reporting challenge but an issue of programme planning, selection of implementation modalities and monitoring, as well as project management and administration. The AAC has noted the actions taken by UNFPA management to address NEX concerns. For example, a new NEX audit management system was developed in 2009 for the NEX audit cycle, and in 2010, capacity development interventions continued to be tailored to meet the local needs of regions and countries, and NEX headquarters operations became an integral part of the Finance Branch. In this respect, the Committee supports the efforts of UNFPA to strengthen management controls and practices at the local and headquarters levels and encourages further initiatives to address the underlying causes of NEX challenges and issues. Additionally, the AAC recommends that UNFPA review the existing NEX-related policies to clarify conditions for applying NEX, direct execution or other operational modalities. In this way, UNFPA could tailor its funding mechanisms to apply the most appropriate implementation modality for a particular country or funding partner and offer the flexibility required to match resources more fully to capacity and needs.

35. To assist in managing for results, the AAC recommended in 2008 that UNFPA management develop and implement a formal integrated enterprise risk-management strategy. In 2009, UNFPA initiated a study to recommend the steps for its development by reviewing risk management-related frameworks currently existing in UNFPA that could support the strategy. In 2010, UNFPA hired an ERM senior adviser. During 2010, the AAC met with the ERM Adviser and reviewed the initial ERM plan. The AAC reiterates the importance of integrating the various risk management-related frameworks currently in existence in UNFPA, and developing the additional systems and processes necessary to support and sustain a comprehensive ERM strategy that would focus on results and identify and address risk exposures throughout the organization and in its external relationships. The AAC reiterates the importance of the UNFPA Executive Committee support for ERM and that additional focus is needed on issues of governance, management and administration, including the role of the Executive Board and the AAC, and relationships with other United Nations agencies.

36. As noted in 2008 and reiterated in 2009, once an integrated ERM strategy is fully developed and implemented in UNFPA, the AAC will be in a position to appreciate more completely UNFPA mitigation strategies including the Fund's risk appetite and residual risks. The AAC will then be able to contribute more directly to the achievement of UNFPA strategic and business objectives by providing extensive overall strategic advice to the Executive Director on organization-wide risk exposures. The AAC looks forward to continuing its dialogue with UNFPA management relating to the integration of mitigation strategies for the specific and discrete issues of concern with those needed for the potential overall and fundamental risks to the organization.

Overall conclusion

37. The AAC has reviewed the report on UNFPA internal audit and oversight activities in 2010 (DP/FPA/2011/5) being submitted to the Executive Board, has taken note of its overall assessment of UNFPA risk exposure and trends, and concurs with its contents. The AAC supports the report's new focus, that is to say, providing recommendations for consideration by the Executive Board to enable UNFPA to deliver on its mandate with enhanced efficiency and effectiveness.

38. The AAC appreciates the substantial progress made by UNFPA over the last several years in an environment marked by many challenges. The AAC expresses support for the Fund's continued nurturing of an accountability culture across the organization along with the strengthening of its assurance processes. The Committee trusts that the strategic advice and recommendations provided to UNFPA management in 2010 would contribute to developing and sustaining the appropriate oversight and accountability framework along with the necessary supporting systems and implementing practices.

ANNEX 5: MANAGEMENT RESPONSE TO THE ANNUAL REPORT OF THE AUDIT ADVISORY COMMITTEE

1. The UNFPA management response to the annual report of the Audit Advisory Committee (AAC) is provided as per decision 2008/37 of the Executive Board. Further information on a number of topics covered in this response can be found in the comprehensive management response to the UNFPA internal and oversight activities in 2010, made available on the UNFPA Executive Board website.

2. UNFPA acknowledges and welcomes the 2010 annual report of the AAC. Throughout 2010, UNFPA continued to benefit from regular consultations with the AAC and would like to express its gratitude to the Chair and members of the Committee: their commitment and guidance have been invaluable in further strengthening UNFPA management practices.

Reorganization (paragraphs 12-13 of the annual report of the Audit Advisory Committee)

3. As part of the Executive Director's annual report, UNFPA regularly reports to the Executive Board on the progress and impact of the reorganization. To this end, the Fund has also identified a set of indicators that capture the quality and support provided by the regional offices to country offices.

4. UNFPA management looks forward to the evaluation of the reorganization implementation which will be conducted by the Division for Oversight Services (DOS) in 2012, as well as to the audit of governance (headquarters/regional offices) in support of programme delivery in 2011. The outcomes of these assessments will be key in driving the Fund's future efforts in strengthening the organizational structure and aligning it with the organization's strategic goals.

Succession and workforce planning (paragraph 14 of the annual report of the Audit Advisory Committee)

5. UNFPA management agrees with the observation of the AAC regarding the importance of focusing attention on the human resource dimension of change and on organizational continuity. In line with the organization's succession planning framework, talent management and workforce planning are a priority, particularly in light of foreseen retirements among senior management. To address concerns related to roles and responsibilities, emphasis is placed on ensuring that new and existing staff members receive comprehensive induction and training.

Enterprise resource planning (paragraph 15 of the annual report of the Audit Advisory Committee)

6. Through the Executive Sponsors Group, the Inter-agency Governance Group and other mechanisms, UNFPA is working very closely with other Atlas partner organizations (UNDP, UNICEF, UNOPS, UN-Women, and the United Nations University) to ensure coordination of Atlas activities in anticipating and resolving any issues that may arise with regard to Atlas, such as quality assurance, availability and management of resources, system performance and upgrades, including those driven by the International Public Sector Accounting Standards (IPSASs) requirements.

International Public Sector Accounting Standards (paragraphs 16-17 of the annual report of the Audit Advisory Committee)

7. Through the United Nations system IPSASs Board, UNFPA is working in close collaboration with other United Nations agencies to ensure IPSASs implementation in 2012.

8. The UNFPA IPSASs implementation plan, which contains risk analysis and suggested mitigating actions, includes activities to ensure necessary changes in accounting policies, business practices and systems to support the transition from United Nations System Accounting Standards (UNSAS) to IPSASs. The original plan was updated to reflect the recommendations made by the United Nations Board of Auditors, DOS and the AAC. The AAC itself acknowledged, at the February 2011 meeting, that the revised detailed workplan indicating milestones, deliverables and business owners responded to the AAC recommendations. A detailed training plan to support the IPSASs implementation strategy is being implemented.

Ethics function (paragraph 19 of the annual report of the Audit Advisory Committee)

9. UNFPA management welcomes the AAC focus on the ethics function, as per the Committee's revised terms of reference. Detailed information on ethics-related activities is contained in the Report of the UNFPA Ethics Office (DP/FPA/2011/6).

Internal control framework (paragraph 22 of the annual report of the Audit Advisory Committee)

10. UNFPA conducted a comprehensive review of its internal control framework (ICF) guided by the internationally recognized Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards for effectiveness of internal controls along six critical business processes. The revised ICF was launched through a user-friendly web application with links to applicable policies and procedures. The strict separation of duties prescribed by the ICF was enforced and the completion of monthly and quarterly financial accountability checklists was made mandatory. Field offices were provided support and additional guidance on the procedures to apply in emergency situations and decentralized offices. Certification in the area of procurement is now mandatory and a certification course on the ICF is being developed.

Division for Oversight Services role and resources (paragraphs 23 to 28, 30 and 31 of the annual report of the Audit Advisory Committee)

11. UNFPA management welcomes the strategy adopted by DOS in 2010. This is tailored to the needs of the organization and supports UNFPA strategic objectives. Management has benefited from the Division's assurance and advisory services, which have now extended from identifying issues to providing practical recommendations to management. UNFPA will further strengthen its efforts to implement the recommendations provided by DOS and encourages the Division's representation at key business practices-related meetings and the provision of advice relating to key UNFPA business initiatives.

12. As demonstrated throughout 2010, UNFPA management is committed to ensure that adequate resources are available to DOS, and will continue to give priority to ensuring that DOS has the necessary capacity to implement its charter and provide the level of assurance necessary to support UNFPA strategic objectives.

Evaluation (paragraph 29 of the annual report of the Audit Advisory Committee)

13. UNFPA management is committed to continuing efforts in improving evidence-based programme design, programmatic focus, and monitoring and evaluation. In line with its evaluation policy, UNFPA is

both strengthening its efforts to enhance a culture of evaluation and improving coverage, quality and use of evaluations to ultimately strengthen programme design and delivery. Efforts are also under way to improve evidence-based programming, and the issue of programme focus will be addressed, inter alia, through the ongoing midterm review of the strategic plan.

Recommendations of the United Nations Board of Auditors (paragraphs 20, 21 and 32 of the annual report of the Audit Advisory Committee)

14. To ensure staff attention and compliance with audit recommendations, UNFPA has incorporated the implementation of the recommendations of the Board of Auditors as indicators for business unit and staff performance, establishing a strong linkage between performance management and accountability, and ensuring that rewards and sanctions are enforced, within the United Nations Staff Regulations and Rules.

15. UNFPA management is reviewing the process adopted to follow up on DOS and the Board of Auditors' recommendations with a view to ensure that follow-up is conducted with a more systematic and strategic approach. As an interim measure, and for the whole of 2011, an audit monitoring committee, chaired by the Executive Director, has been established to closely follow up on both external and internal audit recommendations, escalating issues as needed and ensuring that recommendations are implemented in a timely manner. The Division for Oversight Services is an observer on this Committee.

16. UNFPA engages on a regular basis with the United Nations Board of Auditors to benefit from its continuing guidance on audit-related matters.

National execution (paragraphs 33 and 34 of the annual report of the Audit Advisory Committee)

17. In 2010, UNFPA continued to strengthen efforts to address national execution (NEX)-related issues and made NEX a key priority for the organization. To make its response more focused and effective, UNFPA is guided by the recommendations contained in the Oversight Assessment of the 2009 Nationally Executed Expenditure Audit Process prepared by DOS. Some of the actions include a redrafting of NEX audit terms of reference for the 2010 audit process and contracting of a global audit company to undertake NEX audits not done by supreme audit institutions. This is expected to improve the quality and timeliness of the NEX audit reports prepared in 2011, so that internal and external audit will be able to place reliance on the NEX audit reports and ensure an appropriate audit coverage rate of NEX expenses. The NEX audit process and the information technology application which supports it are under review with the objective of making them simpler and more robust. As suggested in the AAC annual report, in January 2011, the UNFPA Executive Director reminded country offices of the various implementation modalities available and provided direction on the implementation modalities which can be used in certain circumstances.

Enterprise risk management (paragraphs 35-36 of the annual report of the Audit Advisory Committee)

18. The UNFPA Risk Management Adviser is coordinating the assessment of risk profiles at country, regional and headquarters level. A pilot programme will be conducted in 2011 to identify and assess risks, with a view to developing appropriate risk mitigation strategies. Enterprise risk management will leverage to the maximum extent possible existing systems, integrating risk management within policies, procedures and processes.

19. In summary, UNFPA will continue and further strengthen its efforts to implement the recommendations of the Audit Advisory Committee. The UNFPA Executive Director and senior management have made strengthening accountability the number one priority for the organization in 2011 and, with the Committee's continuous guidance, are fully committed to ensure that stated objectives and high-quality results are achieved and UNFPA resources are efficiently used.